How Insurance Men Invest Money of Policyholders

Metropolitan Life President Explains Method of Benefiting Industry and Home Building by Using Premiums to the Best Advantage

By Haley Fiske
President Metropolitan Life Insurance Company

THE subject of investments of life insurance funds has been a very live one for some years, and especially of late the discussion has reached an acute stage. It is interesting for three reasons: First, because of the immense amount of the funds of the companies; second, because of the need of capital in various directions, and, third, because of the enormous number of people who are interested as life insurance policyholders. Two-fifths of the entire population of the United States are insured in what are called "old line" companies—that is, on companies issuing policies on the level premium plan. This plan requires great accumulations to provide for the maturity of the insurance.

These reserves in thirty-nine companies, whose assets are nearly 91 per cent of the combined assets of 266 level premium companies operating in the United States, amounted at the end of 1919 to about five billions of dollars. Many people look upon these five billions as free assets and do not know they are also liabilities. The public ought to understand this. The level premium plan of insurance was designed, as the name indicates, to issue policies the premiums upon which are the same during the life of the policies. It is certain that the cost of insurance increases each year after age 10 because the rate of mortality increases. More people out of each thousand die every year with increasing age.

The "natural insurance" plan of assessment companies therefore involves increased premiums with advancing age. It is obvious that as the period of life approaches the less productive age the premium becomes more of a burden, and finally becomes almost prohibitive. The level premium plan takes the cost of insurance through life and divides it so that the premium will be the same at that age through the issue of the policy. It follows that at the beginning the holder pays more than the premium necessary to carry the mortality cost for the year. The excess premium is the reserve. This reserve takes care of the deficit in the premium when the age has advanced so that the premium charged is less than the mortality cost for the year. The companies must invest the reserve at a rate of interest that, added to the reserves themselves and future premiums, will produce the full amount of the insurance when it becomes due.

Public Investments

At the end of 1919 the thirty-nine companies owned nearly a billion and a quarter of Federal, state, county and municipal bonds—nearly 20 per cent of the entire investments of assets. We were at war so short a time ago that the recollection of everybody is very vivid as to the urgent necessity of borrowing money by the Federal government. Life insurance companies were the first to be appealed to and they were urged even to borrow money to invest in the Liberty and Victory loans. They responded nobly and owned over seven hundred millions of United States bonds at the end of 1919. In this case you will observe that what we have named as the primary principle of investment—to get as high a rate of interest as possible from safe securities—was modified by the other principle we have named. Some of the bonds bought carried interest down to the rate assumed in the calculation of premiums, and nearly all of the bonds subscribed left little excess interest for surplus.

It seems to me there should be another principle governing investments—namely, public needs. It would seem that insurance companies as a whole have consistently followed this principle. Take public transportation. If we go back over the financial history of the country we find that thirty or forty years ago what the country most needed was facility of communication. This nation owes its greatness to the railroad facilities. We find the insurance company officers who shared the vision of the pioneers. In 1875 but 1.13 per cent of the assets of life insurance companies were invested in railroad bonds and stocks; in 1880 3.78 per cent. In 1885 railroad investments were nearly 20 per cent of the assets; in 1890 23½ per cent, in 1895 26⅓ per cent, in 1900 over 30 per cent, in 1904 32 per cent, in 1911 35⅓ per cent; three years later show a decline as the needs decreased and the proportion dropped to 33⅓ per cent, then in 1917 to 32⅔ per cent, and last year to 28⅘ per cent.

Debt to Companies

The debt the country owes to the life companies in the matter of transportation has perhaps not been realized. The companies have done their share in civilization, or this is the result of developing the country in facility of communication. I have often called life insurance companies the circulating life blood of the country. We need not elaborate this idea further nor do more than mention the matter of urban and interurban rail systems.

Next take the public need of cultivated farms and city dwellings, storehouses, shops, office buildings. Mortgage loans have generally formed the largest percentage of life insurance investments. Here is a need which just at present attracts the most public attention. Criticism has been insistent that the companies have not done their duty. They have been blamed because of the shortage of housing. It is unthinking criticism. It has even been said that mortgages should be, if not almost the sole, yet the greatly predominating form of investment. This criticism overlooks several facts.

First, investments must be to some extent liquid. One company was called upon in a year to pay $24,000,000 in influenza claims over and above its normal mortality—about 50 per cent. Second, if all the companies undertook mortgage loans almost exclusively the rate of interest would fall to a point which would be a loss to policyholders. Third, if such a rule were established by statute the supply would exceed the demand and there would be a large amount of uninvested assets. And lastly, and as important as any, a really fundamental is the fact that the housing situation would have been just as bad if the policy now suggested had been the rule of the companies.

During the war there was no unsatisfied demand for mortgage loans on good securities. Building stopped. Parenthetically we may remark if the rule desired had been adopted the United States government would have been seriously hampered in the prosecution of the war by lack of funds, and the financing of the war could not be repealed.

Situation After War

After the war, when real estate began to be active and it was realized that years of quiescence had caused a shortage of all kinds of buildings, several obstacles were found in the search for loans. The surtaxes on income caused estates and individuals to call existing mortgages for payment for the purpose of reinvesting the funds in tax-exempt securities or those yielding a high return and to refuse to make new mortgage loans. It is significant that the insurance company which is the largest investor in New York City mortgages has not refused here or elsewhere a single application with adequate security on housing enterprises, and has loaned this year, and agreed to loan on mortgages, $30,000,000. And can anybody say that the life insurance companies should be the only lenders on bond and mortgage? It is not their fault that the tax laws have cut out of the market the private investor and the managers of estates; nor that there are in the market huge amounts of tax-exempt investments of local government bodies.

And there is the matter of farm loans. Dwellers in cities have had no benefit in the matter of lower food costs and would suffer if agricultural development were curtailed. The life companies are called upon for these loans and have $1,000,000,000 so invested—15 per cent of their assets; although in this field they have to submit to the competition of the Federal government which exempts mortgages made under its system from taxation. The history of farm loans is very creditable to the life companies.

Mortgage Investments

As to the total of mortgage investments, in 1870 nearly 40 per cent of the assets of the thirty-nine companies was on bond and mortgage; in 1875, 58 per cent; from 1880 to 1895, about 40 per cent, and last year they were over 30 per cent. The end of this year will probably see this percentage increased by the increase of mortgage loans by the thirty-nine companies in 1920 to the end of October amounts to $232,739,388. Thus to-day the companies have the enormous sum of $2,082,836,848 invested on bond and mortgage, about equally divided between farms and cities, and have made commitments for many millions more—one company alone having promised nearly $50,000,000 in loans not yet made.

The last principle mentioned to be discussed is the distribution of investment in localities where policyholders reside. This problem has been up in various forms for several years. The claim has been made that life insurance companies should be compelled by state laws to invest a large stated proportion of the policy reserves upon lives in the respective states in certain designated classes of securities of those states or political divisions thereof. One state passed such a law. The consequence was that the great insurance companies withdrew from the state and have never returned; another consequence was the rise in the rate of interest on mortgages in the state because of the withdrawal of company loans.

Agitation for Legislation

The agitation for that kind of legislation has never ceased, and even in the enlightened State of New York something along that line has been proposed—as, for instance, compelling loans on bond and mortgage in proportion to the assets. Much can be forgiven people who have the responsibility of meeting acute housing deficiency. But they must think things out. The fact is that the life insurance companies doing business in this state have about 60 per cent of their New York reserves invested in New York real estate mortgages and real estate. Such a law passed in New York would lead to retaliatory legislation. The ultimate result would be the diminution instead of the increase of mortgage loans in the state.

The fact is that there is no obligation upon the companies to the various states in matter of investments. The right to do business is purchased by the payment of taxes and license fees and the subjection to state supervision. The obligation of the companies is to their policyholders in the respective states. The way to conduct an insurance company is to meet the reasonable, intelligent, informed desires of its policyholders in respective states. In this subject, what is the real interest of the policy-holder? It is to get the best returns out of safe investments. Safety first, income next. Wherever the returns are highest and sound securities there should the investment be made irrespective of locality.

Would Defeat Object

But, given securities of equal value and return, it is right that policyholders should have their localities benefited. This is, I think, according to the investment plan of the companies now. It is dictated by self-interest. Any attempt to dictate by legislation is sure to defeat its object.

What the companies have done is to invest their funds throughout the country where funds were needed, as indicated in part by the rate of interest obtainable. Two things were accomplished thereby which benefited policyholders: first, a better rate of interest was obtained, and, second, the partially undeveloped parts of the country were built up through the progress. The states are being welded more and more into a nation. They are getting closer together by increased inter-state investments, nearer together by the diminishing of contrasts in respect to capital and consequent improvement in business and living conditions.

Buying Pearl Shell In Australia Urged

It appears to be advisable for American buyers of pearl shells to negotiate directly with the Australian market, of which Broome is the center, rather than through the London auctions, according to the Bureau of Foreign and Domestic Commerce.

Although in the past some shell has been bought directly for American account, mostly in Broome, Western Australia, and some has been directly exported from Broome and from Thursday Island to Japan, the bulk of all shell has been marketed through the London auction sales in London. It is estimated that the purchase of shell through the London auctions adds about £40 to the cost over that of shell purchased in Broome directly for American account.

American firms, which are negotiating direct with the Australian market, maintain local buyers in Broome, and as they require shell from their agents, they finance with the Union Bank or the Western Australian Bank and their respective agents operate under letters of credit, which are obtained as possible to New York via Singapore and London. The usual buying commission is said to be 2½ per cent.

It is suggested that American firms desiring high grade shell would save considerable expense by encouraging the sorting of shell locally and avoid the waste involved in purchasing unassorted shell, of which a perceptible percentage is rejected after the sorting at destination after paying freight on the lot.

Farmers' Loss In Purchasing Power Is Felt

Industries Making Specialty of Selling to Rural Buyers Are Hit by Restricted Sales in Last 3 Months

Implement Orders Decline

Prospect of Recovery Is Still Uncertain; Eastern Belt So Far Escapes

Attention has been focused lately upon the buying and selling attitude of the American farmer. In business circles the present stand of the great mass of the country's crop producers is being alluded to as a "strike," a strike against selling their products and also a strike against buying new equipment, clothing and practically everything used on the farm that the farmer himself does not wrest from the soil.

The "strike" against selling his products has received publicity in many directions. The efforts of the organized farmers to have the government grant aid to them in the form of extended credits that will permit holding grain, cotton and other products for a rise in prices are well known.

The other side of the story is affecting a large number of manufacturing and distributing enterprises. Manufacturers of agricultural implements, farming equipment of all kinds, as well as retailers in small communities and the great mail order houses, whose customers are drawn largely from the rural sections are one in declaring that the farmers are prosecuting a more strenuous buying strike than were their city brethren last spring, when the "buyers' strike" was believed to be at its height. The farmers were supposed to have forced the country-wide sweep of 20 per cent reductions by their refusal to pay the prices then ruling among retailers.

Attitude of Farmer

The attitude of the average farmer against buying now, as near as can be learned by implement and equipment salesmen who come in direct contact with the tiller of the soil, is simple. He is refusing to buy until he is able to move his crops at what he considers a fair price, or until the things he desires to buy drop in price comparable to the descent in crop values that has materially decreased his prospective income.

The National City Bank of New York estimates the loss in purchasing power to the farming population this year at "somewhere between 30 and 40 per cent, or $6,000,000,000 to $8,000,000,000, as compared with last year. These figures probably were arrived at by figuring the estimated crop yield for the country at present prices and comparing the result with the estimates made of farming income last year. They may be revised by a change of crop prices. Also, they are not so formidable as at first appearance, when the fact that the farmer's income dollar will buy considerably more this year than it did last year, because of the fall in prices of some of the commodities he uses is taken into consideration.

Commenting on the decreased purchasing power of the farmer the Case Company said in a recent bulletin: "It would be foolish for the people engaged in other industries to think that they can go on making and selling goods as though this loss had not occurred, enjoying all the benefits of the reduction in cost of farm products."

Duller Season Than Normal

Although this is normally the dull season for the sale of farming equipment, makers of harvesting machinery, plows, dairy equipment, etc., assert that their sales are far below those of similar periods in other years.

"We have never been quiet, so far as sales are concerned," said an official of The De Laval Separator Company, manufacturers of cream separators and milking machines, "but we are hoping that there will be an improvement shortly after the first of the year, when we will begin distributing machines to our agents in the rural districts. Our sales began showing a marked decrease about August. Previous to that time our sales were above those of preceding years. We did not feel the depression that was experienced in textile lines so early as the silk, woolen, cotton and apparel trades."

This official, together with executives of other companies manufacturing farm equipment, declined to estimate the drop in sales, but each declared that in his opinion the purchasing power of the farmer was about 50 per cent of what it was last year. These figures may have been based on crop estimates or upon sales analyses.

"So far the makers of farming implements have not reduced prices, but are watching each other for the first signs of a drop. In fact, the new price list recently issued by the International Harvester Company shows an increase in a few machines and no change in the majority."

Extend Farmers' Credit

Fertilizer prices have been reduced. In a report to stockholders Thursday announcing the payment of the usual quarterly common stock dividend of 2 per cent in common stock in lieu of cash, the American Agricultural Chemical Company blamed the farmers responsible for this action. The company says that a large part of its notes and accounts receivable are due in the months of October to January, "but owing to the unwillingness of the farmers to liquidate their debts by the sale of their crops we will be forced to grant further time on a considerable percentage of these receivables."

Much the same conditions are reported by other concerns dealing with the farmers and extensions have been freely granted. So far actual losses have been comparatively small.

The De Laval Separator Company recently lengthened its credit terms by 30 days.

The depression of farmer purchasing is greater in the South than in the North, according to agricultural implement men, and plans are being made to push sales in the North next year before the South is canvassed.

The announced intention of reducing the cotton acreage next year is giving the implement men a certain amount of hope. More diversified farming in the South, it is held, will increase the demand for implements to cultivate the other crops.

Contrary to expectations, the implement manufacturers, who are hard hit by the fall in crop prices, are not sympathetic toward the movement among farmers for government aid in holding crops for higher prices.

Prices Drop in Jap Chemicals

A recent issue of The Japan Advertiser states that the chemical market is still unsteady, sales decreasing while holdings are being readjusted. Though the visible stock is apparently much smaller, prices continue to register falls. Nitric acid is quoted at 21 yen per 100 pounds, sulphuric acid at 35 and hydrochloric acid at 35 yen, 65 per cent, respectively; soda ash from America stands at 5.50 yen per 100 pounds, caustic soda at 7 yen per 100 pounds and bicarbonate of soda at 10 yen per 112 pounds.

Highest Living Standard Set by Thrifty, Is View

Harvard Professor Says Persons Who Rank Economic Safety High Among the Desirable Things of Life Constantly Improve Their Condition

By T. N. Carver
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IT IS a common error among economists who have not trained themselves to see things in their larger relations to assume that there is something antagonistic between thrift and a high standard of living. That this assumption is wrong will be obvious to any one who once understands what a high standard of living really is and what thrift really means. There may be said to be a high standard of living among the people of any community or class when its members commonly refuse to marry and have children, or generally postpone marriage and child-bearing until they are able to provide themselves and their families with a considerable number of other satisfactions.

In a very true and special sense, the standard of living may be said to include the total number of things which the average person prefers to marriage and children. Anything—leisure, a house, an automobile, foreign travel, a library, education, amusement—which the individual desires strongly enough to cause him to postpone marriage and family building until he can afford it, may be said, to enter into his standard of living. If there are few things which men regard as worth having before undertaking the responsibilities of a family, his standard of living is low; if there are many such things, his standard of living is high.

There does not appear to be any good reason for distinguishing among those things which a man insists upon having before undertaking the support of a family, for saying that some of them enter into his standard of living and others do not. If in one class a man must afford a house rather than a flat, while in another he must afford an automobile before he will marry, there is as good reason for including the house in the one's standard of living as for including the automobile in the other's. If in a third class a man will not marry until he can afford an insurance policy, and in a fourth class he will wait until he has a savings account of a certain size, then, by the same reasoning, the insurance policy and the savings account enter into their standards of living. There is no reason to believe that the standard of living is any lower in classes three and four than in classes one and two. Yet classes three and four are thrifty classes. In short, the time element enters into one's standard of living as well as into every other subject of economic choice.

Why Marriage Is Postponed

One of the commonest things in real life is for men and women to postpone marriage until they have "saved up" enough to provide themselves certain comforts and conveniences. In such cases thrift is a necessary part of the standard of living. If they wait until they have saved enough to buy a house, a farm, a shop, or to make certain investments, these things become a part of their standard of living. In fact, it is the writer's observation that the thriftiest people are the people with the highest standard of living. These are the people who rank economic safety high among the desirable things of life—to whom the thought of an uncertain future is as painful as present deprivation, and to whom that of a future well provided for is as satisfying as the immediate gratification of the senses.

The difficulty with those who fail to see the relation between thrift and a high standard of living is not due solely to their failure to understand the real meaning of the standard of living. It is sometimes due to a failure to understand thrift. Thrift does not consist in refusing to spend money or to buy things. It consists, under a money economy, in spending money and buying things, but in spending money for things of a kind different from that which thriftlessness buys. Thrift buys things with a relatively vivid appreciation of the future, thriftlessness buys things with a relatively dull or weak appreciation of the future. Thrift regards future needs as comparable in importance with present desires, thriftlessness regards present desires as of greater importance than future needs.

Thrift vs. Hoarding

Thrift emphatically does not consist in hoarding money. In these days that is one of the most thriftless things one can do with money. It consists in spending money for things which will bring a permanent or a durable advantage. It very generally, though not exclusively, consists in investing money; that is, in buying income-bearing goods. This may be done directly, as when a farmer buys a tractor, or improves his farm as a producing unit. It may be done indirectly, as when one deposits money in a savings bank, buys an insurance policy, or a corporation bond. In all these and many other cases the saver merely turns his money over to other agencies and they do the investing; that is, they buy the producers' goods or the income-bearing goods with it.

It is obvious, is it not, that when a farmer buys a tractor he spends money as truly as when he buys a luxurious automobile, and that the money spent employs as much labor and stimulates business as much in one case as in the other. Temporarily, he has, by so doing, deprived himself of a means of immediate enjoyment. In the long run, however, farmers who undergo this form of deprivation spend more money and have more means of enjoyment, possibly better automobiles, than those thriftless farmers whose standard of living never looks to the future. As a matter of observation, thrifty communities spend more money, in the long run, than thriftless communities for the sufficient reason that they have more money to spend. But, even with their larger expenditures, so long as they remain thrifty a larger proportion of their money is spent for producers' goods than is true in a thriftless community.

Too Little Saving

It ought not to be necessary to add that in advocating a higher degree of thrift one is not advising people to spend all their money for producers' goods and none for consumers' goods. If it were the writer's opinion that any community was going too far in this direction he would feel justified in advising a lower degree of thrift, even at the risk of being accused of advising the cessation of all thrift. The writer does not know of any such community. It seems that there is everywhere too little rather than too much thrift. He therefore feels justified in advocating more thrift, even at the risk of being accused of advising people to invest all their money and consume nothing.

(The foregoing was written as a reply to a charge by a book reviewer in The Journal of Political Economy that Professor Carver had been inconsistent in advocating both a high standard of living and a high degree of thrift. The reply was written for the same publication.—Financial Editor.)

Plan to Stabilize Prices In Cotton Goods Considered

Factors Seek to Avoid Discrepancy in Quotations for Merchandise of Same Quality; Orders Retarded

Within the next few weeks cotton goods prices will be more firmly established on a uniform basis, if plans now being considered by trade leaders are carried out. No small part of the present lack of confidence in prices, it is felt, is due to the fact that they lack uniformity.

Various selling agents, often handling similar classes of goods of about equal quality, have brought out varying prices. Among converters the discrepancy in prices for goods of similar quality is even greater. This has upset the calculations of many buyers, with the result that anything like methodical order placing for the coming season's requirements has been retarded.

It is conceded that many of the price discrepancies are the result of individual mill conditions. If a mill found itself with a large number of cancellations and a great deal of goods on hand, the tendency has been to liquidate without regard to replacement costs. Other mills, more fortunately situated, are basing their prices on actual costs.

It is now felt that most of the forced liquidation is past, and that the time has come to fix prices on a basis of cost. Throughout the trade this has been discussed by prominent men, not only in organized meetings as over the luncheon tables and other casual meeting places. From now on it is felt that there will be more concerted action on the naming of prices than has been seen for some time.

Agents for mills making their own prices say that their principals are taking the agents' views into greater consideration in the making of new prices. During the last few months complaints that the mills were making prices without regard to the views of agents who felt they knew the market possibilities better than the mill owners, who were concerned chiefly with production, were frequent.

Retailers Must Dig For Trade, Is View

Digging hard for business during the next few months will be the salvation of the country's retail trade, in the opinion of Thomas H. Brandon, of the Brandon-Durrel Company, dry goods, cloak, suit and millinery retailers of South Bend, Ind.

"The trouble throughout the country," he said, "is that too many merchants are pessimists and are always looking for and talking of hard times when they should be going after business that much harder. Our sales never were as large. Every month so far this year has shown a substantial increase over the same month a year ago, and 1919 showed a cash increase of sales over 1918 of between 20 and 30 per cent. I might say that in November cash sales surpassed those of December, 1919, the largest previous month.

"As for spring business, we are buying merchandise as we need it. In November we had our cloak buyer in the market a week at two different times. Within the next thirty days most of our force will be in the market. I am looking forward to a larger spring business for our concern than we had a year ago. I believe that a great many people held off buying a year ago, especially in ready-to-wear, on account of the high prices. I believe that a general reduction has taken place, and, the people knowing this, are satisfied, and will start buying again in the spring."

Producers of Women's Shoes Get Large Spring Orders

An increase in the number of orders for spring footwear is reported by some women's shoe manufacturers. These orders are still small and are spread over a variety of styles. For early spring wear the retailers are pinning their faith to strap pumps and sandals.

A few orders are being placed for the large-tongued pumps, but as yet the style has not found any ardent supporters. Although Easter comes two weeks earlier than usual next year, the retailers feel that the present tendency will be more on style tendencies.

The retailers expect low shoes to be even stronger sellers than usual next spring, contrasted with high shoes.

Plan Shoe Trade Banquet

An allied shoe trade banquet to be held in New York the first week in February is being projected by local retailers and manufacturers throughout New York State and the hide and leather men. The proposal for a banquet originated with the Retail Shoe Dealers' Association of New York City, but has spread to other organizations, with the result that it is now planned to make the affair include the entire trade from the hide man on through to the retailer. The program will be devoted largely to ten-minute speeches by various members of the several branches of the hide, leather and shoe trades in an effort to clarify the trade situation.

Minstrell With Bush Sales

George W. Minstrell, for fifteen years with Bloomingdale Brothers, has joined the sales and promotion division of the toilet articles and perfumery division of the Bush Terminal Sales Building.

Rays of Hope In Curtailment Of Steel Trade

Increased Rail Orders and Hardware Jobbers' Buying for Spring Encourage Belief in Early Recovery

Pipe Prices to Decline

Predictions of Ruinous Low Levels for Lists and Wages Considered Impossible

Special Dispatch to The Tribune

PITTSBURGH, Dec. 11.—Decrease in production continued to be the rule in the steel mills during the week, but shining through the gloom are one or two rays of hope.

The chief gleam in the shadows has been the placing of steel rail tonnage, forecast in these columns, as selling prices settled throughout the industry to the Industrial Board levels, and another is the fact that several of the largest hardware jobbers have placed orders for the bulk of their requirements for next year. This latter is a particularly significant factor of the situation, as the hardware jobber is probably in closer touch with the actual conditions of trade than any other class, owing to his relations with the hardware retail trade throughout the country.

This action upon the part of the hardware houses is a further sign that forehanded buyers realize that prices will not go below the Steel Corporation level. It has been contended in these columns for several weeks that the lowering of prices to the corporation schedule was going to be the bottom and that following a period of slow business, while costs were being adjusted throughout all business, a new era of activity would commence. No one is so foolhardy as to predict when the upward turn will come in a noticeable degree, but the feeling that it will be some time in the early spring is gaining strength here.

Pipe Prices to Drop

Prices on steel pipe continue to remain at the old high level, but there are signs that this market will fill up within a few weeks, when pipe prices will settle down safely to the level of other steel commodities.

The prevalence of bearish views and prognosticators who predict ruinous low levels in prices and wages is an amusing feature of the situation. It appears to be overlooked that this readjustment process is not panicky in nature, as the requirements for steel products were never greater in the history of America than they are to-day. That wages will be reduced is inevitable, but that these reductions will be heavy and ruinous to the workers is an absurdity in the opinion of the leading steel manufacturers here, who point out that since 1913 wages in the steel industry have been raised just exactly 140 per cent, and can therefore stand some cutting without impoverishment of the wage earner or his family.

Idleness is less prevalent in the Pittsburgh district than in any other large industrial district in the country, according to leading manufacturers, and is confined almost entirely to smaller plants, which procured their materials from the steel plants for reworking into finished products. In the steel-making industry proper the percentage of unemployment is not high, and is chiefly found in the cutting off of superfluous workers, which is made possible by the increased efficiency being displayed by the others. Reduction in working time has occurred pretty generally throughout the industry, but the United States Steel Corporation mills are virtually on full time. These mills are operating at about 85 per cent of capacity. None of the larger independents is operating below 60 per cent capacity.

Working Hard for Christmas

Virtually all the mills in the Homestead Steel Works and the Duquesne Steel Works Corporation plants are operating full time, with big tonnage outputs. The first fifteen days of this month comprise the Christmas pay, and workers have been bending every effort to make their holiday pays large. The plate mills are exceptionally busy in filling orders for plates and finished steel, which will give the mills a splendid record for the week. At the Duquesne plant the chances of breaking the record for the month are bright.

The Sharon Pressed Steel Foundry Works, at Wheatland, is virtually closed, while the Sharon foundry, in the same town, is running at 50 per cent of capacity. The mills in Farrell owned by the corporation are operating about 85 per cent. In Sharon the Carnegie plant, the American Steel foundries, Hall furnace, Carnegie Steel furnace and Savage Arms plants are down. The Sharon Steel Hoop Company is operating only two finishing mills, with the open hearth, ten-inch, bar, blooming and strip mills closed. The Petroleum Iron Works, at Petroleum, is working at capacity, and the Standard Tank Car plant at about 60 per cent. Only one blast furnace of six is running. Heads of the independent plants assert there is no business on hand and that the outlook is not promising, although many believe that after the first of the year there may be an improvement.

The Carnegie Company started its coking plant at Farrell in full operation this week. For several months only 170 of the 212 ovens had been producing coke.

Gap in Prices Disappears

The gap between prices quoted by independents and the corporation has almost wholly disappeared in the Youngstown district, except on pipe, which is still maintaining higher levels. Independents are quoting under the major interest on cold-finished steel bars, the prevailing quotation being 3.60c, a decline of $13 a ton, and $8 a ton under the corporation price of 4c. In spite of the lower prices, however, comparatively little new business is developing.

New plate business is confined chiefly to material for tanks and tank cars for the oil country. Pig iron sales are still negligible and basic iron may be readily obtained at $33.

In the fuel markets spot furnace coke is procurable at $7, and the best grade of gas coal at $4.50. Still further recessions in fuel prices are looked for by large industrial consumers.

Open hearth sheet bars are quotable at the steel corporation price of $47, though some consuming interests profess to believe that they will be obtainable at $45. Three sizable inquiries were considered by the trade this week.

Petroleum Iron Works at Sharon is reported to have received during the week an order for 1,500 tank cars. The Youngstown Steel Car Company is now working out a repair order for the Chesapeake & Ohio Railroad that will occupy its capacity until next February. The Youngstown Sheet and Tube Company is reported to have taken a substantial order from the Texas Company for 10-inch pipe.

Silver Market

Silver—London, 40½d; New York, domestic, 99½c; foreign, 61⅝c.; Mexican dollars, 46⅞c.

Modifications Needed in Present Definition of Income

Changed Conditions in Business as Result of Deflation Necessitate New Method of Determining What Is Income, Economist Says

By Dr. Robert Murray Haig
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THIS is a practical, workaday world, full of imperfections. Most economists, popular superstition to the contrary, notwithstanding, are fairly conversant with the facts of modern business life and fairly well aware of the practical difficulties of fitting abstract conceptions to the environment of the market place. Certainly modifications—serious modifications—must be made in the general definition of income, as formulated by economists, to fit it for use as the item of net income entered on Form 1040 or Form 1120, and the scientific economist in advising the legislator would be the last to suggest an attempt to follow the implications of his analysis without regard to the limitations imposed by the actual conditions under which the law must function. Such a course would be anything but scientific.

The point to be grasped very clearly, however, is this: Those modifications to which he would consent and which, indeed, he is among the first to urge, are merely modifications, merely concessions made to the exigencies of a given situation. For example, one might urge that no tax be placed on a gain arising from the appreciation of a fixed asset until it is actually sold. But the recommendation should not be urged on the ground that the appreciation is not income until it is sold. The economic fact is that the owner of that asset comes into possession of economic income whenever the increase in the value of that asset is sufficient in amount and definite enough in character to be susceptible of precise evaluation in terms of money.

Again, one might urge that no tax be placed on the services which one actually enjoys when he lives in his own home rather than a rented one. But, again, that recommendation should not be supported by the assertion that this item is not income. It is income whenever it is susceptible of evaluation in terms of money. Neither the economist nor the courts should be asked to say that it is not income. That is not the real question in either of the illustrations given.

Item of Income

The real question is, rather, is it justifiable to treat this item of income in some special way as compared with other items of income because of special circumstances surrounding its receipt? Thus it is futile and silly, from an administrative point of view, to attempt to include in the income tax return a money estimate of the income which the man receives when he lives in his own house. The Wisconsin authorities, after attempting to list such income for several years, have decided that the game is not worth the candle.

To the writer it seems unfortunate that the question as to the constitutionality of the Federal income tax on specific items is turning so largely on the question as to whether the items are or are not income. The items most controverted certainly fall within the definition of income established by the analysis of business facts made by both the economist and the accountant. Moreover, the concept of income is, after all, essentially an economic concept, and if the legal concept established by court interpretation under a particular constitutional provision or amendment departs in very fundamental fashion from the economic concept, injustices may arise of such magnitude as to necessitate either the abandonment of the income tax or the adoption of a constitutional amendment which will give a positive and comprehensive definition of income.

The difficulty could be avoided if the broad economic concept of income were frankly accepted with its single test as to whether the item resulted in an improvement in economic power capable of being evaluated. The questions which the courts would then be called upon to consider would be as to whether the modifications made by Congress and by the Treasury, in attempting to construct a concept of taxable income which will be at once workable and approximately just, are modifications which are reasonable and in conformity with the various constitutional guaranties.

True Net Income

It goes without saying that taxable income under an income tax law should approximate as nearly as practicable the true net income as defined by the analysis of the economist and the accountant. How close an approximation is possible depends upon the perfection of the environment in which the tax must live. No unnecessary departure from the true concept should be made. The imperfections of our present economic environment which are of most significance to this problem fall into three classes:

The imperfections of the economic standard of value.

The imperfections of accounting practice.

The imperfections of the administration.

A perfect income tax is attainable only when no modifications need be made because of imperfections in our standard value, our accounting and our administration. These classes will be taken up in turn.

Economic Standard of Value

That variations occur from time to time in the price level and in the value of money is well known to every person whose resources during recent years have been sufficiently limited to compel him to have any regard at all for his expenditures. If income is defined as the total accretion in one's economic strength between two points of time, as valued in terms of money, it is clear that his income will reflect every change in the value of money between those two points of time in so far as the items entered on the balance sheets at those times affect the computation.

If the level of prices goes up 10 per cent the money value of my assets will ordinarily follow in a like rate. That particular increase in value does not really indicate an increase in my economic strength. My power to command economic goods and services has not increased, for the money value of these goods and services has likewise increased. So long as we have a money standard which varies we shall find that even a perfect accounting system will show a net income which is not identical with the true accretion of economic power. Indeed, the more perfect the valuation and the accounting the greater will this injustice be.

It must be borne in mind, however, that this is an evil which is with us under our present law. A man who sold an asset in 1920 which he had purchased in 1914, making an apparent profit of 100 per cent and receiving his pay in fifty cent dollars is, under our statute, subject to tax on his apparent gain, although his gain is only apparent and not real. Moreover, the situation is particularly unjust under our present system. If complete periodical revaluations were used in determining income there would still be relative equality as between different taxpayers. But as the situation now stands, the transactions are closed in a haphazard and uneven fashion. A man who happens to sell out at the peak of the price curves is taxed very unequally as compared with the man who continues his transaction until a period of lower price levels.

Appreciations in Value

It should also be borne in mind that this element is of some influence even in an income tax such as that in force in Great Britain, where appreciations in property values are not taxed, for an item of inventory included in one's accounts at the beginning of the year and sold in the course of the year will reflect the change in the prices during the period held.

If it were possible to modify the concept of taxable income so as to eliminate this variation it would certainly be desirable to do so. The prospect for a complete solution of the difficulty pointed out, however, is identical with the prospect for a perfect monetary standard. But an approximate solution might be realized if we were able to evolve a satisfactory index of the level of prices. If we knew accurately what the change in price in a given year had been it might be possible to qualify the results shown by a comparison of the balance sheets for the beginning and the end of the period in such a way as to eliminate the influence of the changing standard. But even this refinement is not likely to be introduced soon. Indeed, the desirability and urgency of its introduction are dependent largely upon the complete solution of the accounting problem, which solution is certainly not imminent.

Accounting Practice Imperfections

Until such time as every one keeps accounts and the accounts furnish a perfect record of every one's economic position the concept of taxable income must be modified in order to meet the problem presented by the shortcomings of accounting practice. Dozens of illustrations of how the concept is modified in our statute because of the necessity of allowing for the imperfections and incompleteness of accounts will occur to every one.

While the accounting ideal as stated by the leading theorists in the accounting field is in entire harmony with the economic analysis, it should be pointed out that many so-called accounting principles which are generally accepted are little more than rules of action formulated during an obsolete period, when the use of accounts for tax purposes did not exist. So long as the chief purposes of the accounts were to provide a basis for applications for credit and for the distribution of dividends rules which tended toward a conservative statement of profits were certainly full of virtue. The increase in the tax burden has added a new primary use for the accounts a use which demands certain qualities which are not important in the other cases.

To form an entirely satisfactory basis for the imposition of income taxes the accounts must reflect the full, true economic position of the taxpayer, and in so far as arbitrary rules of inventory valuations operate to build up hidden reserves or other accounting practices tend to befog the picture they must ultimately be eliminated, and they have no place in truly scientific accounting.

Administration Imperfections

A lively regard for the limitations of the administration is essential to the successful formulation of a tax statute. This is a factor which we have failed to recognize sufficiently in this country. Many of the modifications which our statute makes in the concept of income are obviously designed to simplify the problem of administration, but in spite of the number and character of these modifications there appears to be grave question as to whether they have sufficient to reduce the administrative task to manageable proportions. The British, with their splendid civil service, are appalled at the burden we place upon our inadequate Treasury staff. Certainly such changes in the abstract definition of income as are necessary to make the statute practical and workable must be accepted, provided the cost in terms of inequity is not so great as to make some available alternative tax a more attractive method of raising the revenue.

In addition to modifications on the above grounds, modifications of two additional types are often urged. Those who are convinced that taxation should be used for the furtherance of social ends often demand special modifications. For example, those who are deeply impressed with the desirability of increasing the amount of economic capital demand special treatment of the individual surplus of corporations, or reduced surtax rates upon that portion of individual incomes which are saved and reinvested. There are others who on social grounds believe in a differentiation between earned and unearned income.

(The foregoing article is based on an address by Professor Haig, which started discussions last week at a tax conference held at Columbia University under the auspices of the Institute of Arts and Sciences. The discussions will be continued on Monday, Tuesday, Thursday and Friday evenings of this week.—Financial Editor.)

To Explain Banking

Association Plans Campaign to Eliminate Mystery

With 139 of the 141 mutual savings banks in New York State participating, the Savings Banks Association of the State of New York, acting on the suggestion of George V. McLaughlin, Superintendent of Banks, has decided to launch an educational campaign to "take the mystery out of banking."

John J. Pulleyn, president of the Emigrant Industrial Savings Bank and head of the Savings Banks Association, in a letter replying to Mr. McLaughlin's request that such a campaign be conducted, says in part:

"Every member of this association agrees with you that the time has come when the veil of mystery should be lifted from the banking business. We bankers did not realize how little the public really knew about their own great savings bank system until we were confronted with published statements, which gave the impression that mutual savings banks have stockholders who share in the profits of the banks; that savings banks invest the depositors' money in speculative securities; that dormant accounts eventually find their way into the bankers' pockets, and a number of other statements derogatory to mutual savings banks, which obviously were based on misinformation."